



RECEIVER'S FIRST QUARTERLY  
PROGRESS REPORT FOR  
**SADDLE MOUNTAIN UNIFIED  
SCHOOL DISTRICT #90**

Tonopah, Arizona

*Report Date:*  
January 22, 2008

*Submitted To:*  
Arizona State Board of Education

Veriti Consulting LLC

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## **I. BACKGROUND**

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Pursuant to A.R.S. § 15-103, on June 25, 2007, the Arizona State Board of Education ("SBE") placed Saddle Mountain Unified School District #90 ("SMUSD" or "District") into immediate receivership. Veriti Consulting LLC, a Scottsdale, Arizona-based consulting firm, was appointed receiver (the "Receiver"). The Receiver submitted its Receiver's 120-day Report and Financial Improvement Plan ("Receiver's 120-day Report") and presented its findings to the SBE on October 22, 2007. This is the Receiver's first quarterly progress report ("Receiver's Progress Report"), as required by ARS § 15-103(K), for the quarter ended January 22, 2008.

### **A. Receivership Team**

Members of the Receiver team working with the District and reporting on this quarterly progress report include the following.

*John P. White, CPA/ABV, MBA, CBA, CFE, ASA, CrFA*

Receiver and overseer of District financial and operational activities.

*Elizabeth B. Monty, CPA/ABV, CVA, CFE, CrFA*

Receiver and overseer of District financial and operational activities.

*Tommie Miel, M.Ed.*

Educational/curriculum consultant and overseer of District educational activities.

*Kira Getting*

Financial consultant for construction matters

Other employees of Veriti Consulting, working under the direction of the above individuals, are involved in various financial and educational aspects of the receivership process. When reference is made herein to the "Receiver," Ms. Monty and Mr. White are the intended parties.

## **II. RECEIVER PROGRESS REPORT**

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Detailed below are pertinent disclosures related to the progress of the District with respect to its financial and academic operations.

### **A. Budget**

As the law is currently written, the District must absorb one-fifth of its prior year overexpenditures in FY 2007-2008. The Receiver is working with the Arizona Legislature on drafting legislation to alleviate this significant budget impact. If this legislation or another form of economic relief is not enacted into law during the current session of the Arizona Legislature, the District will overexpend its FY 2007-2008 maintenance and operations ("M&O") budget.

As of the date of this Report, HB 2469 has been drafted and is sponsored by Rep. John B. Nelson (R), Rep. Rich Crandall (R), Rep. Sam Crump (R) and Rep. Andrew M. Tobin (R). In addition, there are six co-sponsors—three Republicans and three Democrats. As such, the bill has bipartisan support. This bill, as presently written and if passed, would give the District a grace period of three years with no budget reduction, after which it would have a six-year period to correct the past overexpenditures. This legislation is a considerable step in the right direction, in terms of helping the District deal with past overexpenditures.

☞ Action Plan: The Receiver and interim business manager will continue to track budget expenditures. All expenditures greater than \$5,000 require Receiver approval.

☞ Note: If HB 2469 passes in its present form, the District is expected to complete FY 2007-2008 within budget, barring any unforeseen circumstances that may arise.

### **B. Current Year Budget to Actual**

As of January 9, 2008, the District had expended 50.7 percent of its current year maintenance and operation ("M&O") budget, and 19.6 percent of its unrestricted capital budget. Table 1 presents a summary of the Districts current operational budget as of January 9, 2008.

**TABLE 1**  
  
**SADDLE MOUNTAIN UNIFIED SCHOOL DISTRICT #90**  
**Budget to Actual Comparison**  
**Fiscal Year 2007 - 2008**  
**As of January 9, 2008**

<b>Fctn Code</b>	<b>Description</b>	<b>Working Budget</b>	<b>YTD Expenditures</b>	<b>Encumbrance</b>	<b>Budget Balance (Over)/Under</b>
1000	Instruction	\$2,519,225	\$1,174,411	\$1,389,911	(\$45,097)
2100	Support Services - Students	187,645	90,995	95,272	1,378
2200	Support Services - Instruction	222,196	84,027	101,129	37,040
2300	Support Services - General Adm	400,580	299,555	111,405	(10,380)
2400	Support Services - School Adm	544,708	290,399	261,373	(7,064)
2500	Support Services - Business	309,465	144,426	209,987	(44,948)
2600	Operation/Maintenance of Plant	1,554,672	940,816	630,489	(16,633)
3100	Food Service Operations	16,815	0	0	16,815
<b>Total Regular Education</b>		<b>5,755,306</b>	<b>3,024,629</b>	<b>2,799,566</b>	<b>(68,889)</b>
1000	Instruction	644,479	290,306	355,848	(1,675)
2100	Support Services - Students	227,885	102,791	102,665	22,429
2200	Support Services - Instruction	1,500	0	0	1,500
2300	Support Services - General Adm	0	2,979	3,957	(6,936)
<b>Total Special Education</b>		<b>873,864</b>	<b>396,076</b>	<b>462,470</b>	<b>15,318</b>
<b>Student Transportation</b>		<b>728,932</b>	<b>333,919</b>	<b>317,419</b>	<b>77,594</b>
<b>Undesignated</b>		<b>116,318</b>	<b>32,218</b>	<b>18,847</b>	<b>65,253</b>
<b>Total Maintenance &amp; Operation</b>		<b>\$7,474,420</b>	<b>\$3,786,842</b>	<b>\$3,598,302</b>	<b>\$89,276</b>
					<b>Under Budget</b>
<b>Total Unrestricted Capital</b>		<b>\$1,612,862</b>	<b>\$315,335</b>	<b>\$625,651</b>	<b>\$671,876</b>
					<b>Under Budget</b>

### C. Enrollment Decline

In what can only be characterized as a devastating blow to the District's efforts at financial recovery, the Wickenburg Unified School District ("WUSD") is allegedly recruiting students from the Tartesso community, which lies within the SMUSD boundaries, for its newly opened Festival Foothills Elementary School ("Festival Foothills"). Festival Foothills has distributed fliers in the Tartesso community to encourage parents to enroll their elementary school-age children in the newly opened Festival Foothills K-5 school. In addition, a Wickenburg bus picks up students in the Tartesso community for transporting to Festival Foothills. This has caused some younger students confusion as to which bus to board and has further exasperated the Tartesso community that houses the fully-constructed, but unoccupied, K-6 school in their neighborhood.

As a result of WUSD's recruiting efforts, Winter's Well Elementary School, which serves SMUSD students residing in the Tartesso community, has lost 32 students to Festival Foothills as of January 15, 2008, based on information provided to the Receiver.

SMUSD district-wide enrollment has dropped slightly since the Receiver's 120-day Report. Enrollment was increasing until the issue arose regarding Festival Foothills recruiting SMUSD students.

Table 2 presents the enrollments as of the specified dates.

**TABLE 2**  
**Saddle Mountain Unified School District #90**  
**Student Counts**

Date	Ruth Fisher Elem.	Winter's Well Elem.	Tonopah Valley High	Total Enroll- ment
October 10, 2007	640	472	401	1,513
January 15, 2008	643	469	391	1,503
<b>Decrease</b>				<b>-0.7%</b>


Enrollment at Winter's Well is a gauge that will be used by the Receiver and District Administration to determine when Tartesso Elementary School will open. This issue is discussed further in the following section.

#### **D. Possible Delayed Opening of Tartesso Elementary School**

As reported in the Receiver's 120-day report, Tartesso Elementary School was scheduled to open in August 2007. Due to the District's financial crisis and low enrollment as of August 2007, the opening of this school was delayed.

The withdrawal of the students from SMUSD detailed above reduces the operating budget for FY 2008-2009, which lessens the probability funds will be available to open Tartesso Elementary for that school year.

The Receiver and SMUSD administration have appealed to the community to keep children enrolled in Saddle Mountain schools, as the funding will provide the best opportunity to open Tartesso Elementary School.

 Note: If the community wants Tartesso Elementary School to open in August 2008, it is imperative they keep their children registered in SMUSD schools and encourage those parents who have withdrawn their children to return them to the District. The only holdback to opening this school is funding, and removing children from SMUSD schools negatively impacts future funding.

#### **E. Termination of the Intergovernmental Agreement with Palo Verde Elementary School District**

As reported in the Receiver's 120-day Report, on August 28, 2007, the District entered into an Intergovernmental Agreement and Cooperative Purchasing Agreement ("IGA") between the District and Palo Verde Elementary School District ("Palo Verde"). The IGA provided SMUSD with Interim Superintendent Robin Berry, Interim Director of Operations Sandi Wilson, Interim Assistant Superintendent for Special Programs Brian McCleney, Interim Information Technology Manager Justin Stanberry, and other professionals. The cost of this IGA ran between approximately \$10,000 and \$14,000 per month, which provided the District with expert leadership at a very reasonable cost.

Ms. Berry and her team came to Saddle Mountain with the highest of recommendations. This team of education professionals provided an outstanding service to SMUSD, in the duties performed, financial expertise, curriculum and administrative oversight. They collectively went above and beyond the scope of the IGA to ensure the District was provided with competent academic and financial leadership, often working evenings and weekends to assist the Receiver and the District as a whole.

Unfortunately, Palo Verde's Governing Board deemed the IGA to be too draining of the district's resources and voted to end the agreement effective January 9, 2008. The relationships Ms. Berry brought to bear for the District are irreplaceable, as she is well connected, known and respected in the education community. Some in the SMUSD community did not understand the tremendous efforts and progress Ms. Berry and her team were providing to the District and began to question the motivations of the IGA and related administrative decisions. These unfounded criticisms negatively impacted the ability of the Palo Verde team to continue to improve the District's dire financial and administrative issues and, based on information provided to the Receiver, contributed significantly to the decision by Palo Verde to terminate the IGA with Saddle Mountain.

☞ Note: The loss of the IGA negatively impacted the efficiency and effectiveness of the District to correct its devastating historical gross mismanagement. The Palo Verde Elementary District's service to SMUSD is greatly appreciated by the Receiver team. We recognize the professionals' competence and acknowledge the basis for terminating the IGA was based on both the financial drain to Palo Verde, as well as the SMUSD community's lack of support related to the IGA.

#### **F. Appointment of New Interim Administration Personnel**

Following the termination of the Palo Verde IGA, the Receiver, in conjunction with the Governing Board, hired two new administration personnel. The Receiver believes the new team to be highly qualified and come to the District with glowing recommendations. The Receiver is hopeful the community, staff and Governing Board of SMUSD will accept these individuals and their considerable competencies.

- *Interim Superintendent James L. Kieffer.* Mr. Kieffer has been an educator for more than 34 years. Prior to his retirement in 2002, he was superintendent of the Glendale Union High School District. In 1997, Mr. Kieffer served as interim superintendent of another Arizona school district following the death of that district's superintendent. He will work at the District four days per week through June 27, 2008. He has agreed to assist the District with finding a permanent superintendent.
- *Interim Business Manager Sandra J. Wilkins.* Ms. Wilkins has 33 years of experience in managing the financial affairs of Arizona school districts. She was formerly business manager for Phoenix Elementary District and Peoria Unified School District. Ms. Wilkins will work three days per week for an indefinite term.

In addition to the above, Mr. Justin Stanberry will assist the District with its information technology needs until the District has the budget capacity to fill this position with a full-time employee. Mr. Stanberry is an employee of Palo Verde Elementary School District and will be under contract with Veriti Consulting LLC to provide these services to the District. It was the request of Palo Verde's administration that Mr. Stanberry's agreement is with Veriti, rather than the District.

Unfortunately, the cost of the new administrative team is substantially greater than the team provided under the IGA with Palo Verde. The mid-year change in administration will have a significant detrimental impact on the current year M&O budget.

☞ Recommendation: It is imperative the community, staff and Governing Board members offer their support to the new administrative team. Changes in administration set back recovery efforts and cost the District much needed resources.

#### **G. Governing Board Recall Election**

As reported in the Receiver's 120-day Report, three members of the SMUSD Governing Board were subject to a recall election. On November 6, 2007, all three members were recalled, and as such, Ken Blackson, Dan Blackson and Kathy Torres are no longer members of the Governing Board. Their replacements are as follows.

- Mr. David Masch
- Ms. Kim Meachum
- Mr. Paul Roetto

At its meeting on January 15, 2008, the Governing Board re-elected Mr. Gary Burton as president and elected Mr. Paul Roetto as clerk. The remaining Governing Board member is Mr. Chuck Jones.

#### **H. Governing Board Training**

On November 27, 2007, Ponfilo H. Contreras, Executive Director, Arizona School Boards Association, conducted a training study session with the Governing Board. This session was attended by all five members of the Governing Board, including the three newly elected members, as well as the Receiver. Mr. Contreras covered Open Meeting Laws and other information important for the proper conduct of meetings. It was a

recommendation in the Receiver's 120-day Report that the Governing Board obtain training due to numerous Open Meeting Law violations previously noted. Mr. Contreras' presentation was a well-rounded, comprehensive session for experienced and new Governing Board members alike. Based on information provided to the Receiver, it appears that, for the most part, the session was positively received by the Governing Board members.

The Receiver is hopeful the Governing Board will continue to unite in its efforts to improve the District.

☞ Recommendation: The Receiver has requested all Governing Board members attend the Arizona Association of Business Schools 2008 Winter Conference in February for further training. Funding has been arranged so neither the District, nor the individual Governing Board members, will bear the cost of the conference.

#### **I. Administrative Staff**

Other than as noted herein with respect to the interim business manager and superintendent positions, the only known change in the administrative staff is the resignation of Mr. John Sigala, principal of Tonopah Valley High School, who will be retiring at the end of the current fiscal year. The District's other two principals are expected to return for the next school year.

The Administrative Staff continues to work through some very difficult issues related to busing, infrastructure, financial oversight and academic progress. The team in place is comprised of dedicated professionals who are making concerted efforts to effect positive change and progress for SMUSD.

☞ Action Plan: Discussions have been held between the Receiver and Interim Superintendent Kieffer regarding finding a replacement for Mr. Sigala. Mr. Kieffer will develop an action plan to recruit a new principal for the high school.

#### **J. Evacuation Plan**

Evacuation plans for all District locations have been finalized, implemented and tested. However, the District does not have enough buses to evacuate all students and personnel at the same time if an event at Palo Verde Nuclear Generation Station mandates evacuation.

☞ Action Plan: The Receiver and interim business manager will be exploring the possibility of a bond issue to fund the purchase of additional buses for this purpose.

#### **K. EDR Water Treatment System**

When the Receiver's 120-day Report was submitted in October 2007, the District was bringing in potable water at a cost ranging between \$20,000 and \$25,000 per month. There were delays in making the repairs to the equipment due to circumstances beyond the control of District personnel. As such, the water treatment system was not up and running properly until January 2008. The caustic chemicals that caused the problem have now been properly stored in a separate facility. The total cost to the District for the broken EDR water treatment system is not known, as the District has not received all invoices for equipment repairs and water transport. However, the total cost is expected to exceed \$75,000.

#### **L. Potable Water Storage Tank**

Because of the cost of transporting water into the District, the potable water storage tank was not drained during the Fall 2007 break for inspection, as was expected in the Receiver's 120-day Report. Rather, the tank will be drained and inspected during the Spring 2008 break.

#### **M. Waste Water Treatment Plant**

The Receiver continues to explore whether the waste water treatment plant ("WWTP") at Tonopah Valley High School was to have been part of the original Turner Construction contract. The matter has been turned over to the District's attorneys, who are currently reviewing documents and other matters related to this issue.

#### **N. Well**

The head of facilities, maintenance and custodial services is requesting proposals for an assessment of the condition of the well, for purposes of determining its current condition and estimated remaining useful life. This was originally expected to have been completed in the fall. However, due to delays in the repairs to the EDR water treatment system, this issue was not addressed. The initial estimated cost of \$1,200 for the assessment was not accurate, given the condition of the well. The revised cost from the vendor was \$11,200, which necessitated the need to take the service out to bid.

## O. Fire System

All material fire issues with the District's facilities have been resolved at this time. Some current minor repairs are being made at Ruth Fisher Elementary School and Tonopah Valley High School. To the best of the Receiver's knowledge, none of the items needing repair compromises the safety of students or staff.

## P. Construction Accounting

The accounting for all construction activities has been completed and some payments were made to contractors in November 2007. Table 3 presents a summary of amounts currently owed to construction vendors.

**TABLE 3**  
**Saddle Mountain Unified School District #90**  
**Due to Construction Vendors**

	Owed in October 2007 [1]	Paid in November 2007	Owed January 15, 2008
Turner Construction [2]	\$ 403,794	\$ 276,047	\$ 127,747
Adolphson & Peterson	1,702,787	1,035,685	667,102
DLR Architects	587,061	304,205	282,856
<b>Totals</b>	<b>\$ 2,693,642</b>	<b>\$ 1,615,937</b>	<b>\$ 1,077,705</b>

### **FUNDING SOURCES FOR CONSTRUCTION COSTS**

Amount previously funded by SFB but not applied to contractor invoices by prior superintendent (thus, to be funded from District sources)	\$ 566,203
Amount originally intended to be funded by District sources in prior fiscal years	247,137
Amount expected to be funded from FY 07-08 capital	257,840
Amount to be funded by E-rate	6,525
<b>TOTAL CONSTRUCTION COSTS TO BE FUNDED BY DISTRICT</b>	<b>\$ 1,077,705</b>

#### Notes

[1] There is a variance between the amount shown herein as owed in October 2007 and the amount shown in the Receiver's 120-day Report due to adjustments related to the final reconciliation of construction accounting.

[2] Turner Construction states the amount owed to it is \$163,698. The Receiver is in the process of researching this discrepancy.

Of the \$1.077 million shown in Table 3 as owed, all must be paid from District funds. Funding sources from School Facilities Board ("SFB") have been exhausted, and the maximum amount has been paid from adjacent ways. The remainder must be paid from the District's unrestricted or soft capital budgets, neither of which are sufficient in the current fiscal year to meet these obligations.

☞ Action Plan: The Receiver will continue working with contractors to establish payment schedules or provide other sources of funding.

☞ Note: The amounts shown owed to the various contractors in Table 3 do not include invoices totaling hundreds of thousands of dollars received by the District after completion of the construction accounting in December 2007.

**Q. Annual Audit**

The District has contracted with Cronstrom, Osuch & Company, P.C., to perform the audit for FY 2006-2007. Field work is expected to commence March 1, 2008 and the report is expected to be completed by March 31, 2008.

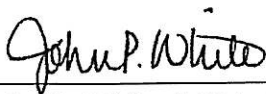
### III. CONCLUSION

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The Receiver will update this Report as mandated by A.R.S. § 15-103 with new information and any corrections that are appropriate to the information disclosed in this Report. The information contained herein is correct to the best knowledge and belief of the Receiver as of this date.

The Receiver respectfully reserves the right to amend and modify this Report if any facts or other information was incorrectly provided to the Receiver.

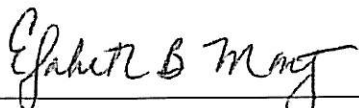
Respectfully submitted,



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Veriti Consulting LLC  
Receiver for Saddle Mountain Unified School District #90

January 22, 2008

Date



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